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RUEHGL/AMCONSUL GUAYAQUIL PRIORITY 3320  
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SUBJECT: ECUADOR ECON WEEKLY: Assembly Debates Law of the Sea, Tax Revenues Increase, Oil Cooperation with Venezuela;

¶1. (U) The following is a weekly economic update for Ecuador that reports notable developments that are not reported by individual cables.

#### Assembly Debates Law of the Sea -----

¶2. (U) On February 21 Jaime Barberis, Under Secretary for Sovereignty of the Ministry of Foreign Affairs, informed the Constituent Assembly that the ministry supports adoption of the United Nations Convention on the Law of the Sea, currently under review by the Assembly's Sovereignty Committee. Adopting the treaty would define Ecuador's territorial waters as the first twelve nautical miles offshore (reducing their current claim of 200 miles) and give it a 200 mile exclusive economic zone (EEZ). While indications have been that the Assembly will indeed follow that recommendation, the issue remains controversial. The morning of February 28, the Foreign Minister was interviewed on local television and - apparently in response to concerns that have been raised -- said that more study was still needed, noting in particular that the implications for air space territoriality had not yet been reviewed.

#### Tax Collection Increase -----

¶3. (U) The Internal Revenue Service of Ecuador (SRI) reported increased tax collection in January compared to last year. In January 2008, tax revenue was \$557.4 million, an increase of 29%. This increase does not reflect the total increase that will result from the tax law reform passed in December, however, because the reform has not yet been entirely implemented. Because the reform's implementation regulations have not yet been finalized, Carlos Marx Carrasco, Director of the SRI, said that some of the \$2.34 million already mistakenly collected via the 0.5 percent tax on capital outflows would need to be refunded.

#### Ecuador and Venezuela's Petroleum Relationship -----

¶4. (U) On February 21, in Sucumbios province, President Correa inaugurated a Venezuelan drilling rig, part of a drilling program that that is supposed to increase Ecuadorian oil production by 10-15 thousand barrels. PDVSA rents the drills at a lower-than-market price to Ecuador and provides technical support. President Correa thanked Venezuela for the rig and announced that a second drill will arrive in March, and that his administration plans to work with Venezuela to increase production at a second mature Petroecuador field.

¶5. (U) In March a Venezuelan ship will arrive to begin seismic

studies to quantify gas reserves in the Gulf of Guayaquil. Ecuador and Venezuela are continuing with their crude-for-derivatives swap program, which supposedly has saved Ecuador \$50 million dollars (although the GOE has not published information on how the program works).

¶6. (SBU) Comment: These Venezuelan/Ecuadorian projects have received some media coverage, but with less fanfare than the initial plans for cooperation which were announced early in 2007 but are only now beginning to see some modest practical results. Ironically, as the Venezuelan drilling rig was being brought into Ecuador, some private drilling companies have been shipping their rigs out of Ecuador because of insufficient work as private oil companies have cut back on their investment programs. Also ironic is that Petroecuador claims that it wants to work with the private oil service companies to restore production in some of the same mature oil fields where it is working with PDVSA.

JEWELL